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UNCLAS SECTION 01 OF 03 KATHMANDU 000680

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SUBJECT: HIMALAYAN TOURISM HEADED DOWNHILL

REF: KATHMANDU 568

1. SUMMARY: Nepal's tourism industry, one of the country's top sources of foreign exchange, has been facing tough times in recent months, and the prolonged slump has negatively affected every sector of the tourism economy, from hotels and airlines to trekking agencies. International arrivals at Tribhuvan International Airport were down by 56% this February, and occupancy rates at hotels around Kathmandu are at 40% on average. Although the GON has announced several relief measures, the mood among industry professionals ranges from skeptical to bleak, with most business owners blaming their woes on domestic and international security concerns. End summary.

#### VACANT ROOMS

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2. Nepal's hotel industry has been hit hard by the decline in tourist revenues, with five-star hotels apparently hit the hardest. While most hotels in the capital report 40-45% rates of occupancy, the Yak and Yeti, one of Kathmandu's oldest luxury hotels, reported an occupancy rate of 25% for March, and the newer Hyatt cited a dismal 10-15% for the same month. The Crown Plaza Soaltee is running at about 50%, according to its owner. Conversely, the less sumptuous Kathmandu Guest House was bucking the trend with an occupancy rate of 90%. It appears clear that the high end of the tourist trade is taking a larger hit than the low -- backpacking -- end.

3. Deepak Upraity, General Manager of Kathmandu's Shangri-La Hotel, estimates that occupancy in the capital is down 50% compared to last year's figures. According to Upraity, the decline may be too much to bear for an industry already suffering from oversupply. "We haven't started laying people off yet," he said in a meeting with EmbOff, "but we've stopped filling staff vacancies, and we've asked people to go on leave. We're holding local events just to keep the staff busy and keep [the hotel] going. But we're also looking at ways to start seriously cutting costs."

4. March is typically one of the best months for tourism in Nepal-- good enough to sustain the industry through the lean summer monsoon season. But this year, with an occupancy rate of 45% in March and an expected 25% occupancy rate in June, Upraity is not optimistic. "Tourism has been steadily declining since 1999," he lamented, referring to the year in which an Indian Airlines jet was hijacked on departure from Kathmandu. "Last year, people had already made bookings when the royal massacre happened, and so they kept coming because they didn't want to cancel. But now?" He simply shrugged.

#### EMPTY SEATS

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5. Immigration data documents the drastic decline in the number of foreign arrivals at Tribhuvan International Airport (TIA) when compared to last year. American arrivals were down by approximately 62% in January, with 1101 Amcits arriving this year, compared with 2950 in 2001. February numbers reflect a 56% decrease, from 3296 last year to 1436 this year. Total arrivals by third-country nationals (excluding India) were down by 62% in January and 59% in February. Indian arrivals, perhaps boosted by the SAARC Summit, were only down by 24% in January, but dropped by 41% the following month.

6. Several airlines have cancelled service as a result of the shrinking demand for service. The Dutch carrier Transavia will suspend flights to Kathmandu starting on April 28; Russian carrier Aeroflot is also canceling its Kathmandu schedule. Thai Airways, which runs daily service to and from Bangkok, reports that their incoming flights are only carrying 30-40% of capacity, and a personnel officer at Royal Nepal Airlines, the national carrier, told EmbOff in March that the airline is "on the verge of complete collapse".

7. Domestic airlines are also feeling the heat, with

several of the small local companies laying off workers. Tulsi Karmacharya, Manager of NECON Air, stated that his company has had to lay off 25% of their workers, due in part to the decline in tourism, and Mountain Air has forced employees to take leave without pay starting in February.

#### DESERTED TREKKING ROUTES

18. The lack of tourism has been devastating to Nepal's multitude of trekking firms, as the worsening security situation has made visitors less willing to travel to remote areas with poor communication and transportation infrastructure. Recent Maoist activities, such as blocking the road to Jiri, the origin point for the Everest trek, are likely to further impact the industry. Tsering Dorjee, Sales Manager at Malla Treks, indicated

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that their business was down by more than 50% and that many of their guides, cooks and porters, all of whom work on contract, are simply out of work. "It's all because of the security situation," Dorjee said. "No one wants to venture out anywhere."

19. Foothills Trekking, which schedules about 40-50 groups during the first three months of a normal year, is experiencing an even sharper decline in business. According to its Chairman, Birendra Gurung, the company has scheduled just three trekking groups so far this year. "Everyone has the same problem," Gurung stated. "Maybe the number one or number two company has more groups, but everyone else is really suffering." Anecdotal evidence supports this: trekking guides and agents applying for non-immigrant visas since the start of the year have been reporting a complete evaporation of business, and have been presenting documents that show little or no income since September of last year.

#### SAME PROBLEMS OUTSIDE THE CAPITAL

10. Kathmandu's hotels have historically survived the monsoon thanks to the trickle of tourists transiting Nepal on their way to Tibet, but hotels in Nepal's second city of Pokhara rely on Indian business travelers to fill their rooms during the rainy season. According to Shangri-La's Upraity, the situation in Pokhara is even worse than in the capital and not expected to get any better. Claiming that tourism in Pokhara was down by 60-80%, he said that the worsening security situation had eroded the "friendly, brotherly impression" that Indian tourists had previously had of Nepal, and predicted a continuing freefall in occupancy rates.

11. Even the Tiger Tops/Tiger Mountain juggernaut, which helped to pioneer eco-tourism in the jungle parks and mountain regions of the country, has been affected by the general decline in tourism. Tiger Tops CEO Kristjan Edwards told EmbOff that occupancy in the various Tiger Tops lodges is approximately 50%, even after the company closed its popular Tented Camp in Royal Chitwan National Park and began offering reduced rates to the other resorts for both residents and foreign tourists. One night at the Tiger Tops Jungle Lodge cost \$325 in 2000; this year the rate is as low as \$75 per night.

12. Though Tiger Tops has been able to keep 95% of its staff employed to this point, Edwards stated that they've reduced salaries in order to meet costs, and that in a normal year the company would be hiring above attrition rather than asking people to leave. "There was a sharp decrease after September 11, and things have stayed about the same ever since," he said. "Hopefully things won't drop off too much more, or we'll have to make some drastic cuts."

#### GOVERNMENT RESPONSE

13. The GON has begun to make changes to visa policies and other regulations in an effort to encourage tourism and other foreign travel to Nepal, but industry professionals are skeptical about the effectiveness of the new measures. Soft loans to hotels and other hospitality businesses were promised by the government but have not, as yet, materialized. According to the Shangri-La's Upraity, neither banks nor the government want to take responsibility for loans that may very well end up in default.

14. Declaring 2002-2003 as 'Destination Nepal Year', and hoping to capitalize on this year's status as International Mountaineering Tourism Year and the fiftieth anniversary of the first successful ascent of

Mount Everest, the GON has opened up an additional 103 Himalayan peaks for mountaineering. Climbing fees for 60 peaks have been reduced or eliminated, and the bureaucracy required to climb peaks of less than 6500 meters has been simplified, eliminating the need for a liaison officer. Response to the measures has been lukewarm, with most comments in the press echoing those of Tek Chandra Pokharel, a prominent industry entrepreneur. "Those were steps that should have been taken long, long ago," he said in a March interview. "They are welcome, but merely opening a few more peaks... will not help now."

15. To counteract the drop-off in tourism from the U.S. and other typical source countries, the GON and the Nepal Tourism Board (NTB) have been courting Nepal's northern neighbor, hoping to attract China's burgeoning tourist population. In November of last year, the GON signed an MOU with China regarding procedures for Chinese tourists to visit the country and has since approved 78 travel agencies to handle Chinese tourists. Earlier this year, NTB invited a group of Chinese travel journalists to tour the country's most popular destinations, and the board has been producing pamphlets and CD-ROM promotional materials in Chinese. Nevertheless, Chinese arrivals at TIA dropped by 52% during the first two months of this year, compared with the same period last year.

16. COMMENT: While backpackers and trekkers continue to come to Nepal, albeit in much lower numbers than usual, wealthier "high-yield" travelers appear to have been scared off by the declining security situation. Maoist leadership released a letter in March (REF) containing assurances that they are not targeting the tourism industry, but also containing threats to foreign tourists and Nepali businesses alike. Though the events of September 11 and ongoing tensions in the region have had some negative effect on tourism in Nepal, the major threat to that sector of the economy derives from the domestic insurgency.

17. Potential tourists, alerted by increased international news coverage of continuing violence by the Maoists, are researching the security situation in Nepal and rethinking or abandoning travel plans. The trickle-down effect has deprived trekking guides, cooks, porters and other low-income contract workers of much-needed seasonal income. Hotel workers, airline employees and travel agents may soon face unemployment. The severe effect that the downturn has already had on the industry has the potential to turn into economic disaster if the trend continues unchecked. Blame for most of the industry's woes lies squarely at the feet of the Maoists, and once again calls into question the insurgency's proclaimed dedication to the people.

MALINOWSKI